

Thinking About Linking: Considerations in Linking Emissions Trading Programs

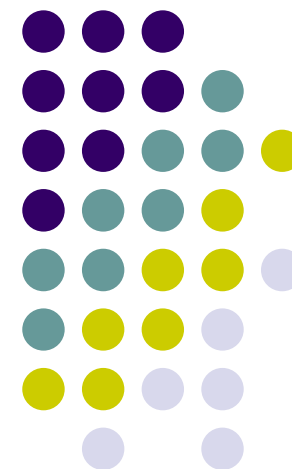
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Cap and Trade as a Tool for Climate Change Policy

University of California, Berkeley

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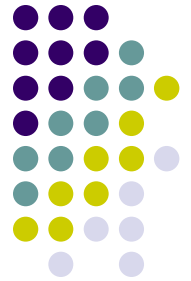




Ideal and Reality

- Ideal
 - Global cap-and-trade program
- Reality
 - Disparate and diverse systems
 - Kyoto Protocol
 - Clean Development Mechanism
 - Joint Implementation
 - European Union Emissions Trading System
 - United States
 - State and voluntary programs
 - Emerging Federal program

Linkage as a bridge to a global system

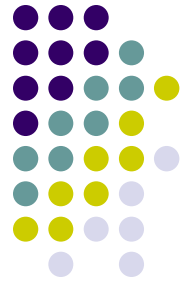


- Reasons to pursue linkage
 - Expand the emissions trading market, reduce costs
 - Harmonize disparate policies
- Different levels of linkages
 - State to Federal
 - State to international

State ↔ Federal Linkage



- Two different vehicles
 - Credit for early action
 - Parallel State program after enactment of the Federal program



Credit for early action

- Ensure that reductions required under the State program are credited under the future Federal program
- Issue: Disputes could arise if State regulates different entities than the Federal program
 - Load-based entity regulation
 - Allowances are held by load-based entities but reductions occur at generators
 - Proposed federal bills would regulate generators
 - Credit for early action provisions focus on entities regulated under the program or on emission reduction projects

Who gets credit?



Sustaining the State Program

- **Fundamental rationale**

- State as environmental policy driver
 - Federal program might be less stringent

- **Issues**

- Potential for preemption
- Under Federal cap, deeper reductions by State entities are offset by higher emissions in other States
 - No additional environmental impact
 - Higher overall cost for Federal cap-and-trade program

- **Are there other rationales for a more stringent parallel State program?**

- Promote State competitiveness in anticipation of more ambitious reduction obligations over time?
- Technology-forcing?

State as importer of international credits



- Approach
 - Allow use of State-approved international credits for compliance in State program
- Legal issues
 - Avoid Constitutional prohibition on State treaties
 - Unilateral recognition without treaty
- Environmental
 - Avoid double-counting
 - Require cancellation of international credits in international programs
- Cost savings
 - Extent of overall cost savings depends on stringency of State program relative to international programs



State as importer and exporter

- Legal
 - Avoid Constitutional issues through mutual recognition without treaty
 - May require amendment of international agreement
 - Currently, credits from US cannot be used for compliance
- Environmental
 - Avoid double-counting through cancellation
 - Expect scrutiny of elements of State program
 - Rigor of monitoring, enforcement
 - Use of cost containment measures
 - Rules for offset projects
 - Banking/borrowing of allowances
 - Safety valve price cap



Impacts

- Environmental
 - Total emissions equal sum of State cap and international cap
- Cost-savings
 - Depends on stringency of State program relative to international program
 - If State program is less stringent than international program:
 - State buyers might be relative losers
 - State sellers might be relative winners



Conclusions

- Linkage has benefits:
 - Can result in cost savings
 - Can promote further harmonization
- Linkage has complexities:
 - Differences in program design can inhibit linkage
 - Linkage results in different winners and losers



Further readings

- David Harrison, Jr., “Carbon Markets, Linking and Cost Containment,” IEA-IETA-EPRI Emissions Trading Workshop, Paris, (27 September 2006)
- Kyle W. Danish, “Linking a U.S. Federal Climate Program with International and Sub-Federal Climate Programs,” in A Climate Policy Framework: Balancing Policy and Politics, The Aspen Institute (E. Claussen and R. Fri, eds. 2004)
- Erik Haites, “Harmonisation Between National and International Tradeable Permit Schemes: CATEP Synthesis Paper,” Organisation for Economic Co-operation and Development (2003)



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